

CALIFORNIA DEPARTMENT OF INSURANCE
LEGAL DIVISION
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Attorneys for The California Department of Insurance

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA**

In the Matter of the Rates, Rating Plans, or
Rating Systems of

**ALLSTATE INSURANCE
COMPANY,**

Respondent.

File No. NC 06093079

**NOTICE OF HEARING AND ORDER TO
SHOW CAUSE WHY RESPONDENT'S
HOMEOWNERS' INSURANCE RATES ARE
NOT EXCESSIVE AND IN VIOLATION OF
INSURANCE CODE SECTION 1861.05**

TO: ALLSTATE INSURANCE COMPANY:

YOU ARE HEREBY NOTIFIED that the Insurance Commissioner of the State of California (hereinafter "the Commissioner") has good cause to believe that the rating plans, rating systems and rates of Respondent **ALLSTATE INSURANCE COMPANY** (hereinafter "ALLSTATE" OR "Respondent") are in violation of Insurance Code section 1861.05 because the rates for its Homeowner's Multi-peril insurance lines are excessive and cannot legally remain in effect. Respondent is ordered to appear and show cause why its Homeowner's Multi-peril insurance rates are not excessive and should not be lowered.

This hearing will be subject to California Insurance Code section 1861.08 and will be held before the Department of Insurance Administrative Hearing Bureau. The Administrative Hearing Bureau will set the time and place for the hearing. This hearing will extend to all matters upon which the Commissioner may act pursuant to Insurance Code section 1861.05. Pursuant to

1 California Code of Regulations, Title 10, section 2646.5, Respondent shall have the burden of
2 proving that each rate is justified and meets all requirements of the Insurance Code.

3 This Order to Show Cause and Notice of Hearing is issued pursuant to Insurance Code
4 §1861.08(b) and California Code of Regulations, Title 10, section 2646.5. To respond to this
5 Notice of Hearing, Respondent must file an original and four (4) copies of a "Notice of Defense"
6 or similar responsive document with the Department's Administrative Hearing Bureau in San
7 Francisco, within fifteen (15) days of service of this Notice. A copy of the Respondent's
8 response and proof of service shall be served upon Antonio A. Celaya, Senior Staff Counsel, at
9 the Department's San Francisco, Legal Office, 45 Fremont Street, 21st Floor, San Francisco, CA
10 94105.

11 The manner and extent of noncompliance are set forth below.

12 **I. GENERAL ALLEGATIONS**

13 1. Respondent is, and was at all relevant times an insurer licensed to transact, and
14 did, transact, the business of insurance in the State of California including Homeowner's
15 Multi-peril insurance in California.

16 2. California Insurance Code section 1861.05(a) states in pertinent part:

17 No rate shall be approved or remain in effect which is excessive, inadequate, unfairly
18 discriminatory or otherwise in violation of this chapter.

19 **II. RESPONDENTS' VIOLATIONS OF STATUTE AND REGULATION**

20 **A. ALLSTATE CURRENT HOMEOWNERS' INSURANCE RATES ARE** 21 **EXCESSIVE UNDER ITS CURRENT FINANCIAL CONDITIONS**

22 3. The Department incorporates by reference paragraphs 1-2 above.

23 4. During 2002 in California Department of Insurance rate filing application No. 02-
24 25822, Respondent applied for a rate increase in its Homeowners' Multi-peril
25 Insurance program. In 2003 Respondent put into effect a rate increase approved
26 by the Commissioner.
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- 1 5. At the time Respondent's homeowner's rates were approved in 2003 its rates were
2 not excessive based upon the loss projections in its rate application. In rate
3 application no. 02-25821 Respondent provided information upon which a loss
4 ratio of 65.54% was estimate for future losses. Respondent's rate increase was
5 predicated upon the information data provided by Respondent. That prediction of
6 losses compared to premium dollars earned has proven to be materially too high.
7 The actual losses were far less than originally predicted and Respondent's rates
8 are now excessive.
- 10 6. On or about March 1, 2006 Respondent reported on annual loss ratios in its 2005
11 annual report filed with the Department under penalty of perjury. The loss ratio is
12 the ratio of monies Respondent paid on claims compared to the dollars it collected
13 in premium for Homeowner's Multi-Peril insurance. In 2002 Respondent's loss
14 ratio was 53.57%.
- 16 7. During 2004 and 2005 the loss ratio calculated by calendar year radically dropped
17 to 31.01% and 41.20% respectively. There is reason to believe that Respondent's
18 loss ratios as calculated by its "accident year," which is the period by which
19 Respondent calculates rates, have dropped precipitously, to the benefit of
20 Respondent. This is substantial evidence that the predictions submitted to the
21 Commissioner, and which were the basis for approval of Respondent's rates, were
22 inaccurate and that Respondent's rates are now excessive.
- 24 8. The earned premium received by California's top 20 Homeowner's insurers
25 increased by more than 61% between 2001 and 2005. However, the losses per
26 dollar of earned premium received in 2005 are significantly less than in 2001.
27 While income and profits have risen, and the number of claims have diminished,
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1 in recent years Respondent and other top insurers have failed to seek rate
2 decreases, thereby denying consumers a competitive market.

3 9. Excessive rates must be determined in part using a determination of an insurer's
4 projected losses, as that term is defined in California Code of Regulations, Title 10,
5 section 2644.4(a). The Commissioner approved Respondent's rates based upon
6 Respondent's projected losses. Respondent's predicted losses have in fact been
7 far less than Respondent predicted and far more favorable to Respondent than
8 what it projected in its previous rate filings.

10 10. The number of claims on Homeowner's Multi-peril insurance policies has
11 substantially declined in California. There is reason to believe that the number of
12 claims submitted to Respondent from its Homeowner's Multi-peril policy holders
13 has significantly decreased. At the same time a variety of factors have increased
14 the income to insurers transacting Homeowner's Multi-peril policies in California.

16 11. Respondent transacts various lines of insurance in various parts of the United
17 States. Respondent's return for 2005, nationally, was 11.08%. In 2003 when
18 Respondent made its rate application there was no reason to believe that its return
19 would be as large as it has proven to be. Given the increase in its premium
20 income and the decrease in the claims per dollar of premium it receives there is
21 every reason to believe that Respondent's Homeowner's Multi-peril lines in
22 California approach the same level of profitability.

24 12. The Commissioner has cause to believe that there may be a variety of factors that
25 contribute to Respondent's apparent reduction in its losses. Whatever factors
26 have contributed to this reduction the result is that Respondent's Homeowner's
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Multi-peril rates are excessive within the meaning of Insurance Code section 1861.05(a).

III. PRAYER FOR RELIEF

13. Based upon the foregoing the Department requests a hearing under the procedures set forth in California Code of Regulation, Title 10, sections 2646.1 *et seq.* and 2648.1 *et seq.*

14. The Department requests a finding that Respondent's homeowner's rates are excessive, and finding of the appropriate and reasonable rate, and an Order requiring Respondent to utilize the rates found to be reasonable based upon the evidence presented at hearing, and such other relief as the judge of the Administrative Hearing Bureau may find to be appropriate.

Dated: _____.

CALIFORNIA DEPARTMENT OF INSURANCE

By _____

Antonio Celaya
Senior Staff Counsel